

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Suburban Mobility Authority for Regional Tra	County Wayne
Fiscal Year End June 30, 2006	Opinion Date October 11, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000	
Street Address 5750 New King Street, Suite 200		City Troy	State Mi
Zip 48098			
Authorizing CPA Signature Thomas E. Darling, CPA	Printed Name	License Number	

Digitally signed by Thomas E. Darling, CPA
DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson,
email=tdarling@rrcra.com
Date: 2006.12.21 15:18:31 -0500



**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2006 and 2005

**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION**

**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2006 and 2005**

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REHMANN ROBSON

Certified Public Accountants

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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 11, 2006

The Board of Directors
Suburban Mobility Authority for Regional Transportation
Detroit, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund and the remaining fund information of the ***Suburban Mobility Authority for Regional Transportation*** (the "Authority"), as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***Suburban Mobility Authority for Regional Transportation's*** management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of ***Suburban Mobility Authority for Regional Transportation*** as of June 30, 2005, were audited by other auditors whose report dated November 11, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the remaining fund information of the ***Suburban Mobility Authority for Regional Transportation***, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2006, on our consideration of the ***Suburban Mobility Authority for Regional Transportation's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 through 8 and the Schedule of Funding Progress on Page 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Suburban Mobility Authority for Regional Transportation's*** basic financial statements. The transmittal letter and supplementary information included in schedules 1 through 7 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

A handwritten signature in cursive script, reading "Lehmann Johnson".

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION
DETROIT, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis has been prepared by SMART's management and should be read in conjunction with the financial statements and related footnote disclosures by which it is qualified in its entirety. The discussion is intended to present an overview of SMART's financial performance for the years ended June 30, 2006 and 2005 and does not purport to make any statement regarding the future operations of the organization. While SMART is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

The annual report consists of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows, prepared in accordance with GASB principles.

Financial Highlights – FY 2006

SMART's current assets increased by \$4.6 million due primarily to a surplus of revenue over expense for the year (excluding depreciation on assets purchased with capital grants).

Noncurrent assets decreased from the prior year by \$2.4 million due primarily to depreciation charges on buses and other equipment (\$13.5 million) offset by the addition of \$11.2 million in vehicles and related equipment.

Total liabilities decreased by \$7.1 million due primarily to the annual payments against the debt incurred for the purchase of 287 fixed route buses in FY 2001, 2002, and 2003.

Net assets increased from \$55.2 million at June 30, 2005 to \$64.5 million at June 30, 2006.

Operating revenues increased by \$1.3 million as the result of an increase in fixed route and connector ridership of approximately 11%.

Nonoperating revenues increased by \$5.6 million as a result of increased funding from federal, state and local grant and tax sources.

Capital contributions increased by \$5.7 million due to increased contributions from federal capital grants.

Total operating expenses before depreciation expense increased by \$1.7 million. The diesel fuel cost alone increased \$2.4 million or 44%.

**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION
DETROIT, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights – FY 2005

SMART's current assets increased by \$0.8 million due primarily to a surplus of revenue over expense for the year (excluding depreciation on assets purchased with capital grants).

Noncurrent assets decreased from the prior year by \$8.8 million due primarily to depreciation charges on buses and other equipment (\$14.0 million) offset by the addition of \$5.6 million in vehicles and related equipment.

Total liabilities decreased by \$5.6 million due to the annual payments against the debt incurred for the purchase of 287 fixed route buses in FY 2001, 2002, and 2003.

Net assets decreased from \$57.2 million at June 30, 2004 to \$55.2 million at June 30, 2005.

Operating revenues increased by \$0.6 million as the result of an increase in fixed route ridership of approximately 6%.

Total operating expenses before depreciation expense increased by \$5.1 million as a result of inflation of approximately 5.4%. This includes an increase in diesel fuel cost of \$1.6 million or 42%.

Balance Sheets

The balance sheets include all assets and liabilities. It is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation.

**SUBURBAN MOBILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

A summarization of SMART's assets, liabilities, and net assets at June 30, 2006, 2005, and 2004 follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Current	\$ 52.0	\$ 47.3	\$ 46.5
Non-current	<u>90.8</u>	<u>93.3</u>	<u>101.6</u>
Total assets	<u>\$ 142.8</u>	<u>\$ 140.6</u>	<u>\$ 148.1</u>
Liabilities			
Current	\$ 41.8	\$ 40.6	\$ 38.2
Non-current	<u>36.5</u>	<u>44.8</u>	<u>52.7</u>
Total liabilities	<u>\$ 78.3</u>	<u>\$ 85.4</u>	<u>\$ 90.9</u>
Net assets			
Invested in capital assets, net of related debt	\$ 45.5	\$ 40.6	\$ 41.4
Unrestricted	<u>19.0</u>	<u>14.6</u>	<u>15.8</u>
Total net assets	<u>\$ 64.5</u>	<u>\$ 55.2</u>	<u>\$ 57.2</u>

At June 30, 2006, total SMART assets were \$142.8 million, compared to \$140.6 million in fiscal year 2005 and \$148.1 million in fiscal year 2004. SMART's largest asset is its investment in fixed route and community transit buses and related equipment, at \$67.4 million, compared to \$67.9 million in 2005 and \$74.2 million in 2004. The balance of SMART's capital assets consists primarily of buildings and other equipment. Grants receivable increased from \$13.3 million in FY 2005 to \$19.7 million in FY 2006 due to the timing of grant collections related to the transportation funding reauthorization efforts of the U.S. Congress. \$10.8 million of the \$13.3 million in grants receivable was collected in the first three months of FY 2006 and \$17.6 million of the \$19.7 million in grants receivable was collected in the first three months of FY 2007. The local contribution receivable increased from \$3.2 million in FY2005 to \$8.1 million in FY2006. \$6.7 million of the \$8.1 million was collected in the first two months of FY2007.

SMART's liabilities total \$78.3 million at June 30, 2006, compared to \$85.4 million in 2005 and \$90.9 million in 2004. Long-term debt of \$36.5 million consists of payments due under a lease/purchase agreement with Gillig Corp. for 287 fixed route buses. Accrued self-insurance increased from 14.6 million to 16.0 million as the result of the timing involved in settling claims.

**SUBURBAN MOBILITY AUTHORITY
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DETROIT, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of SMART, as well as the nonoperating revenues and expenses. Operating revenues consist primarily of fare box revenue from fixed route and connector services. Advertising and other revenues are also included in this category.

SMART is also dependent on state, federal, and local operating assistance, as well as income from investment activities, which are prescribed by GASB as nonoperating revenues. Operating expenses, as well as capital contributions, need to be included.

A summary of SMART's revenues, expenses, and changes in net assets for the years ended June 30, 2006, 2005, and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenue	\$ 11.1	\$ 9.8	\$ 9.2
Operating expenses before depreciation	<u>100.9</u>	<u>99.1</u>	<u>94.1</u>
Operating loss before depreciation	(89.8)	(89.3)	(84.9)
Depreciation expense	<u>13.5</u>	<u>14.0</u>	<u>16.0</u>
Total operating loss	(103.3)	(103.3)	(100.9)
Non-operating revenue	<u>101.5</u>	<u>95.9</u>	<u>96.6</u>
Net loss before capital contributions	(1.8)	(7.4)	(4.3)
Capital contributions	<u>11.1</u>	<u>5.4</u>	<u>4.1</u>
Net gain (loss)	9.3	(2.0)	(0.2)
Net assets, beginning of year	<u>55.2</u>	<u>57.2</u>	<u>57.4</u>
Net assets, end of year	<u>\$ 64.5</u>	<u>\$ 55.2</u>	<u>\$ 57.2</u>

Revenue

SMART's primary sources of revenue are federal, state, and local operating assistance, which are classified as nonoperating revenue. As the result of declining state operating assistance, SMART placed a ballot question before the electorate in August 2002 to increase the local property tax millage from 1/3 mill to 6/10 mill for the years 2003 to 2006. The increased millage was approved by participating communities in Wayne, Oakland, and Macomb counties. In August

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MANAGEMENT'S DISCUSSION AND ANALYSIS

2006, the voters in the participating communities overwhelmingly approved a .59 tax millage for the years 2007-2010.

Expense

Diesel fuel increased by \$2.4 million due to a 44% increase in diesel fuel cost per gallon.

Capital Contribution

Capital contributions consist primarily of federal and state grants for the purchase of replacement and new capital assets. Most of the funds are provided through a federal formula administered by the Federal Transportation Administration. Discretionary funds are also made available in most years. At SMART's discretion, a portion of the federal formula dollars can be used as an offset to preventive maintenance expense.

Capital Assets

Investment in capital assets as of June 30, 2006 and 2005 amounted to \$90,224,264 and \$92,842,626, respectively. This investment in capital assets includes linehaul buses and equipment, community transit buses and equipment, buildings, leasehold improvements, office furniture and other equipment.

Major capital events for the fiscal year include over \$9.3 million in purchases of community transit buses and related equipment.

Additional information on capital assets can be found in the notes to financial statements section of this report.

Debt Administration

Long-term notes payable at the end of fiscal years 2006 and 2005 amounted to \$44.8 million and \$52.7 million respectively. SMART incurred no additional debt for fiscal years 2006 and 2005 and made principal payments in the amounts of \$7.9 million in fiscal year 2006 and \$7.5 million in fiscal year 2005.

**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION
DETROIT, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors

SMART receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The source of these funds includes a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriations each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded.

Contacting the SMART's Financial Management

This financial report is designed to provide our customers, taxpayers and other interested parties with a general overview of the finances of the Suburban Mobility Authority for Regional Transportation and to demonstrate SMART's accountability for the money it receives. If you have questions about this report or need additional information, contact SMART at First National Building 660, Suite 900, Woodward Avenue, Detroit, Michigan 48226.

* * * * *

***BASIC FINANCIAL
STATEMENTS***

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

BALANCE SHEETS

June 30, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	\$ 20,398,375	\$ 26,881,866
Operating assistance due from State of Michigan	237,289	476,791
Accrued interest receivable	72,646	4,931
Grants receivable	19,656,728	13,343,070
Local contributions receivable	8,087,004	3,227,664
Other receivables	473,645	452,384
Materials and supplies inventory	1,830,703	1,981,307
Prepaid expenses	1,196,307	956,945
Total current assets	<u>51,952,697</u>	<u>47,324,958</u>
Net pension asset	587,958	402,220
Capital assets, net	90,224,264	92,842,626
Total noncurrent assets	<u>90,812,222</u>	<u>93,244,846</u>
Total assets	<u>\$ 142,764,919</u>	<u>\$ 140,569,804</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Municipal and community credits payable	\$ 6,970,929	\$ 6,448,766
Amounts payable under purchase-of-service agreements	654,435	202,264
Accrued self-insurance	15,970,407	14,569,339
Payable to State of Michigan	82,891	953,855
Accounts payable and accrued expenses	4,812,656	5,217,958
Accrued interest payable	888,459	1,027,310
Current portion of notes payable	8,246,285	7,871,654
Accrued compensation	4,129,997	4,314,851
Total current liabilities	<u>41,756,059</u>	<u>40,605,997</u>
Notes payable, net of current portion	<u>36,536,855</u>	<u>44,783,139</u>
Total liabilities	<u>78,292,914</u>	<u>85,389,136</u>
Net assets		
Invested in capital assets, net of related debt	45,441,124	40,590,055
Unrestricted	<u>19,030,881</u>	<u>14,590,613</u>
Total net assets	<u>64,472,005</u>	<u>55,180,668</u>
Total liabilities and net assets	<u>\$ 142,764,919</u>	<u>\$ 140,569,804</u>

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For The Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Revenues from transit operation	\$ 11,071,703	\$ 9,811,309
Operating expenses before depreciation expense		
Salaries and wages	42,171,839	41,606,341
Fringe benefits	20,455,680	21,308,015
Contractual services	4,908,154	6,216,063
Materials and supplies	14,322,236	11,536,752
Utilities	2,391,262	2,304,375
Claims and insurance	6,627,282	6,735,388
Purchased transportation	9,620,776	9,084,284
Miscellaneous expenses	370,891	393,757
Total operating expenses before depreciation expense	100,868,120	99,184,975
Depreciation expense	13,535,066	13,955,198
Total operating expenses	<u>114,403,186</u>	<u>113,140,173</u>
Total operating loss	<u>(103,331,483)</u>	<u>(103,328,864)</u>
Nonoperating revenues (expenses)		
Federal operating and preventive maintenance assistance	17,553,403	14,918,611
State operating grants	33,754,039	34,316,023
Local contributions	51,801,527	49,354,424
Interest income	945,510	574,757
Interest expense	(2,509,152)	(2,871,031)
Loss on retirement of assets	(26,824)	(359,949)
Other income	5,630	866
Total nonoperating revenues, net	<u>101,524,133</u>	<u>95,933,701</u>
Change in net assets before capital contributions	(1,807,350)	(7,395,163)
Capital contributions	11,098,687	5,404,829
Change in net assets	9,291,337	(1,990,334)
Net assets, beginning of the year	55,180,668	57,171,002
Net assets, end of the year	<u>\$ 64,472,005</u>	<u>\$ 55,180,668</u>

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

BALANCE SHEETS PROPRIETARY FUNDS

June 30, 2006 and 2005

	2006		2005	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
ASSETS				
Current assets				
Cash and cash equivalents	\$ 20,398,375	\$ -	\$ 26,881,866	\$ -
Operating assistance due from State	237,289	-	476,791	-
Accrued interest receivable	72,646	-	4,931	-
Grants receivable	19,656,728	-	13,343,070	-
Local contributions receivable	8,087,004	-	3,227,664	-
Due from other funds	-	3,056,000	-	-
Other receivables	473,645	-	452,384	-
Materials and supplies inventory	1,830,703	-	1,981,307	-
Prepaid expenses	1,196,307	-	956,945	-
Total current assets	51,952,697	3,056,000	47,324,958	-
Net pension asset	587,958	-	402,220	-
Capital assets, net	90,224,264	-	92,842,626	-
Total noncurrent assets	90,812,222	-	93,244,846	-
Total assets	\$ 142,764,919	\$ 3,056,000	\$ 140,569,804	\$ -
LIABILITIES AND NET ASSETS				
Current liabilities				
Municipal and community credits payable	\$ 6,970,929	\$ -	\$ 6,448,766	\$ -
Payable under purchase service contracts	654,435	-	202,264	-
Accrued self-insurance	15,970,407	-	14,569,339	-
Payable to State of Michigan	82,891	-	953,855	-
Accounts payable and accrued expenses	4,812,656	-	5,217,958	-
Due to other funds	3,056,000	-	-	-
Accrued interest payable	888,459	-	1,027,310	-
Current portion of notes payable	8,246,285	-	7,871,654	-
Accrued compensation	4,129,997	-	4,314,851	-
Total current liabilities	44,812,059	-	40,605,997	-
Notes payable, net of current portion	36,536,855	-	44,783,139	-
Total liabilities	81,348,914	-	85,389,136	-
Net assets				
Invested in capital assets, net of related debt	45,441,124	-	40,590,055	-
Unrestricted	15,974,881	3,056,000	14,590,613	-
Total net assets	61,416,005	3,056,000	55,180,668	-
Total liabilities and net assets	\$ 142,764,919	\$ 3,056,000	\$ 140,569,804	\$ -
Total net assets - enterprise operating fund	\$ 61,416,005		\$ 55,180,668	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	3,056,000		-	
Net assets - business-type activities	\$ 64,472,005		\$ 55,180,668	

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For The Years Ended June 30, 2006 and 2005

	2006		2005	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
Operating revenues				
Revenues from transit operation	\$ 11,071,703	\$ -	\$ 9,811,309	\$ -
Charges for services	-	3,056,000	-	-
Total operating revenues	11,071,703	3,056,000	9,811,309	-
Operating expenses before depreciation expense				
Salaries and wages	42,171,839	-	41,606,341	-
Fringe benefits	23,511,680	-	21,308,015	-
Contractual services	4,908,154	-	6,216,063	-
Materials and supplies	14,322,236	-	11,536,752	-
Utilities	2,391,262	-	2,304,375	-
Claims and insurance	6,627,282	-	6,735,388	-
Purchased transportation	9,620,776	-	9,084,284	-
Miscellaneous expenses	370,891	-	393,757	-
Total operating expenses before depreciation expense	103,924,120	-	99,184,975	-
Depreciation expense	13,535,066	-	13,955,198	-
Total operating expenses	117,459,186	-	113,140,173	-
Total operating loss	(106,387,483)	3,056,000	(103,328,864)	-
Nonoperating revenues (expenses)				
Federal operating and preventive maintenance assistance	17,553,403	-	14,918,611	-
State operating grants	33,754,039	-	34,316,023	-
Local contributions	51,801,527	-	49,354,424	-
Interest income	945,510	-	574,757	-
Interest expense	(2,509,152)	-	(2,871,031)	-
Loss on retirement of assets	(26,824)	-	(359,949)	-
Other income	5,630	-	866	-
Total nonoperating revenues, net	101,524,133	-	95,933,701	-
Change in net assets before capital contributions	(4,863,350)	3,056,000	(7,395,163)	-
Capital contributions	11,098,687	-	5,404,829	-
Change in net assets	6,235,337	3,056,000	(1,990,334)	-
Net assets, beginning of the year	55,180,668	-	57,171,002	-
Net assets, end of the year	\$ 61,416,005	\$ 3,056,000	\$ 55,180,668	\$ -
Change in net assets - enterprise operating fund	\$ 6,235,337		\$ (1,990,334)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	3,056,000		-	
Change in net assets of business-type activities	\$ 9,291,337		\$ (1,990,334)	

The accompanying notes are an integral part of these financial statements.

**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION**

STATEMENTS OF CASH FLOWS

For The Years Ended June 30, 2006 and 2005

	2006		2005	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
Cash flows from operating activities				
Receipts from transit operations	\$ 11,050,442	\$ -	\$ 9,889,825	\$ -
Payments for salaries and wages and fringe benefits	(63,341,224)	-	(64,099,574)	-
Payments to suppliers	(21,837,685)	-	(19,424,653)	-
Payments for claims and insurance	(5,226,215)	-	(4,274,238)	-
Payments for purchased transportation	(9,597,803)	-	(9,263,015)	-
Net cash used in operating activities	(88,952,485)	-	(87,171,655)	-
Cash flows from noncapital financing activities				
Federal operating and preventive maintenance assistance	12,014,592	-	20,214,262	-
State operating grants	33,432,150	-	34,636,922	-
Local contributions	46,942,187	-	49,460,752	-
Other revenues	5,630	-	866	-
Net cash provided by noncapital financing activities	92,394,559	-	104,312,802	-
Cash flows from capital and related financing activities				
Capital grants received	10,014,267	-	6,655,693	-
Purchase of capital assets	(10,466,076)	-	(5,585,399)	-
Proceeds from disposals of capital assets	168,107	-	24,153	-
Payment on installment note payable	(7,871,653)	-	(7,522,161)	-
Interest paid	(2,648,005)	-	(2,998,578)	-
Net cash used in capital and related financing activities	(10,803,360)	-	(9,426,292)	-
Cash flows from investing activities				
Interest received	877,795	-	590,521	-
Net increase (decrease) in cash and cash equivalents	(6,483,491)	-	8,305,376	-
Cash and cash equivalents, beginning of year	26,881,866	-	18,576,490	-
Cash and cash equivalents, end of year	\$ 20,398,375	\$ -	\$ 26,881,866	\$ -
Noncash activities				
Loss on retirement of assets	\$ 26,824	\$ -	\$ 359,949	\$ -

Continued....

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

STATEMENTS OF CASH FLOWS - Concluded

For The Years Ended June 30, 2006 and 2005

	2006		2005	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$(106,387,483)	\$ 3,056,000	\$(103,328,864)	\$ -
Adjustments to reconcile to net cash used in operating activities:				
Depreciation expense	13,535,066	-	13,955,198	-
Change in assets and liabilities:				
(Increase) in due from enterprise fund	-	(3,056,000)	-	-
(Increase) decrease in other receivables	(21,261)	-	78,689	-
Decrease in materials and supplies	150,604	-	493,449	-
(Increase) in prepaid expenses	(239,362)	-	(67,140)	-
Increase in municipal and community credits payable	522,162	-	170,837	-
Increase (decrease) in amounts payable under purchase-of-service agreements	452,171	-	(178,731)	-
Increase in accrued self-insurance	1,401,067	-	2,461,150	-
Increase (decrease) in payable to the State of Michigan	-	-	944,607	-
Decrease in accounts payable and accrued expenses	(1,050,857)	-	(515,632)	-
Increase in due to internal service fund	3,056,000	-	-	-
Decrease in net pension obligation	(185,738)	-	(451,449)	-
Increase (decrease) in accrued compensation	(184,854)	-	(733,769)	-
Net cash used in operating activities	<u>\$ (88,952,485)</u>	<u>\$ -</u>	<u>\$ (87,171,655)</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

I. DESCRIPTION OF OPERATIONS AND THE ENTITY

Organization

Suburban Mobility Authority for Regional Transportation (SMART or the Authority), an instrumentality of the State of Michigan, is a public benefit agency created pursuant to the provisions of Act No. 204 of the Public Acts of Michigan of 1967, as amended. SMART is charged with the responsibility to plan, acquire, construct, operate, maintain, replace, improve, extend, and contract for public transportation facilities within the counties of Macomb, Oakland, and Wayne. SMART is managed by a seven-member board of directors, who represent the counties that comprise SMART's operating region.

In August 2002, voters in Macomb County and in those communities participating in Act 196 Transportation Authorities in Oakland County and Wayne County approved a four-year, 6/10-mill property tax dedicated to public transportation. Tax revenues received by Macomb County, the Wayne County Act 196 Authority, and the Oakland County Act 196 Authority and contributed to SMART for the years ended June 30, 2006 and 2005 were \$51,801,527 and \$49,354,424, respectively.

Pursuant to the provisions of legislation enacted in 1988 which amended Act No. 204, a corporation known as the Regional Transit Coordinating Council (RTCC) is the designated recipient of operating assistance funds from the State of Michigan and the Federal Transit Administration (FTA). SMART and the Detroit Department of Transportation (DDOT) are subrecipients of such operating assistance funds. The Articles of Incorporation of RTCC provide that 35% of any state or federal transportation operating assistance or formula capital grants or loans is to be distributed to SMART, and the remaining 65% is to be distributed to DDOT. FTA and the State of Michigan pay such funds directly to SMART and DDOT at the direction of RTCC. Capital grants or loans – which are not allocated on a formula basis by the responsible federal or state agencies but, rather, are allocated on a specific project or asset basis – are allocated to SMART and DDOT based on the terms of the grant or loan.

Reporting Entity

For financial reporting purposes, all departments and operations over which SMART exercises oversight responsibility are included in the reporting entity. Oversight responsibility was evaluated based on consideration of financial interdependency, selection of governing authority, designation of management, the ability to significantly influence management, and accountability for fiscal matters.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

No governmental units other than SMART itself are included in the reporting entity. SMART does not have oversight responsibility over any other governmental unit. This is evidenced by the fact that, with respect to any other governmental unit, including the transportation agencies with which SMART has entered into purchase-of-service agreements, or the Act 196 Transportation Authorities in the counties served by SMART, SMART does not select their governing authority, designate their management, exercise significant influence over their daily operations, or maintain their accounting records.

SMART is not included within the reporting entity of the State of Michigan, because the State has no authority to appoint or remove SMART's management or board of directors and is not accountable for its fiscal matters.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Authority, which are organized as an Enterprise fund to account for general operations and an Internal Service fund used for accumulating resources for retiree health care, both are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting using the economic resources measurement focus. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which SMART receives value without directly giving equal value in return, include federal operating and preventative maintenance assistance, state operating grants, local contributions from property taxes, and capital contributions. On an accrual basis, revenue from these grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to SMART on a reimbursement basis.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Authority applies all

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds. The Authority has elected not to follow private-sector guidance.

Basis of Presentation

The Authority uses the following proprietary funds:

Enterprise fund – This fund is used to account for principal ongoing operations of the Authority which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Internal service fund – This fund is used to account for resources that are charged to the Authority enterprise fund to service the increasing demands of retiree health care costs.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Materials and Supplies Inventory

Materials and supplies inventory consist of repair parts for buses and operating supplies and are valued at the lower of cost or market, with cost determined on an average-cost basis.

Capital Assets

Capital assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 (\$1,000 for computer equipment) and an estimated useful life in excess of a year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Improvements, which extend the useful lives of the assets, are capitalized. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

Depreciation is computed using the straight-line method, based upon the estimated useful lives of the assets as follows:

	<u>Years</u>
Building	25
Fixed route buses	7-12
Connector transit buses	4-7
Equipment and office furniture	3-10

Leasehold improvements are amortized over the shorter of the life of the improvement or the life of the related lease.

Claims Expense

Claims expense is accrued in the period that incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administrators, legal counsel, and actuaries. Claims liability represents management's best estimate based on known information.

Compensated Absences

SMART employees earn vacation and sick leave, which is generally fully vested when earned. Unused vacation time may be carried over to the following year with certain limitations; upon termination of employment, employees are paid for unused accumulated vacation. With certain limitations, sick leave may be accumulated and paid upon retirement and, for certain employees, upon voluntary termination of employment. For certain employees, some accumulated sick leave may also be converted into additional vacation time. Accumulated unpaid vacation and sick leave are recorded as a liability.

Capital Acquisition Grant Activities

Federal and state capital acquisition grants fund the purchase of capital items, including buses, bus terminals, and related transportation equipment used by SMART and other transit agencies within the southeastern Michigan region. Capital grants for the acquisition of capital assets are recorded as grants receivable in the balance sheet and capital contributions in the statement of revenues, expenses, and changes in net assets when the related qualified expenditures are incurred. When capital assets relating to other

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

transit agencies are transferred to such transit agencies, their related costs are removed from the records of SMART.

When assets acquired with capital grant funds are disposed of, the Authority is required to notify the granting federal agency. A proportional amount of the proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement vehicles or remitted to the granting federal agency.

Net Assets

Equity is displayed in three components as follows:

- *Invested in capital, net of related debt* - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources when they are needed. The Authority does not have restricted net assets at June 30, 2006 or 2005.
- *Unrestricted* - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Classification of Revenues

SMART has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as revenues from transit operations.
- *Nonoperating revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, Basic Financial Statements – and

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

Management's Discussion and Analysis – for State and Local Governments, such as federal and state contributions and investment income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

III. STATE OF MICHIGAN OPERATING ASSISTANCE FUNDS

Under Act 51 of the Public Acts of 1951, as amended, the State of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. RTCC is the designated recipient of such funds, and SMART is a subrecipient of RTCC. SMART has recorded operating grant revenues under Act 51 based on a formula that takes into account the eligible costs incurred by SMART, estimates of eligible costs incurred by DDOT, locally generated revenues of SMART and DDOT, the percentage of RTCC's funding that is allocable to SMART, and preliminary information made available by the Michigan Department of Transportation (MDOT) as to the amount of funds expected to be available to the RTCC.

Based on the latest available determinations of State operating assistance allocable to SMART in accordance with the Act 51 funding formula, for certain of the State's fiscal years through September 30, 2004, operating assistance payments were received in excess of the amounts allocable to SMART. The overpayments, in the amount of \$82,891 and \$953,855, are recorded as a payable to the State of Michigan at June 30, 2006 and 2005, respectively.

Act 51 requires SMART to provide a portion of the State operating assistance as funding to municipalities within its transportation district. Amounts not used by the municipalities within two years must be expended by SMART for operating purposes within the county in which the city, village, or township lies. SMART was required to provide approximately \$3,059,000 pursuant to this provision in both fiscal years 2006 and 2005.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Investment and deposit risk

Overview. The investment policy adopted by SMART allows deposits and investments that are in accordance with State regulations. Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes SMART to make deposits and investments as follows. SMART is authorized to invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. SMART is allowed to invest in bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated with the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. SMART's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. SMART's investment policy does not have specific limits in excess of state law on investment credit risk. SMART's investment in commercial paper was rated A1, P1 by Standard & Poor's and Moody's nationally recognized statistical rating organizations.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, SMART's deposits may not be returned. State law does not require and SMART does not have a policy for deposit custodial credit risk. At June 30, 2006 and 2005, the book amount of SMART's deposits was \$4,398,378 and \$28,461,470, respectively, and the bank balance was \$4,701,268 and \$29,265,383, respectively. As a

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

result, at June 30, 2006 and 2005, \$4,401,268 and \$28,965,383 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, SMART will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and SMART does not have a policy for investment custodial credit risk. Of the investments in commercial paper of \$15,999,997 at June 30, 2006, the total amount was subject to custodial credit risk because the related securities are uninsured, unregistered and held by the Agency's brokerage firm.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. SMART's investment policy does not have specific limits in excess of State law on concentration of credit risk. At June 30, 2006, the Agency had over 5% of its investments in commercial paper with two corporate entities.

B. Grants Receivable

At June 30, grants receivable are comprised of the following:

	<u>2006</u>	<u>2005</u>
Accounts receivable, billed		
Federal Operating Grant (CMAQ)	\$ 2,422,958	\$ 1,039,859
Federal government grants	14,617,103	10,461,391
State of Michigan grants	<u>801,922</u>	<u>971,875</u>
Total billed	<u>17,841,983</u>	<u>12,473,125</u>
Accounts receivable, unbilled		
Federal government grants	1,208,242	611,230
State of Michigan grants	488,831	141,042
Local grants	<u>117,672</u>	<u>117,673</u>
Total unbilled	<u>1,814,745</u>	<u>869,945</u>
Total	<u>\$ 19,656,728</u>	<u>\$ 13,343,070</u>

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

C. Capital Assets

Capital asset activity during the fiscal year ended June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated				
Land	\$ 4,246,270	\$ -	\$ -	\$ 4,246,270
Construction in progress	<u>162,053</u>	<u>195,970</u>	<u>162,053</u>	<u>195,970</u>
Total capital assets not being depreciated	<u>4,408,323</u>	<u>195,970</u>	<u>162,053</u>	<u>4,442,240</u>
Capital assets being depreciated				
Linehaul buses and equipment	90,724,672	167,691	6,983,798	83,908,565
Community transit buses and related equipment	28,445,144	9,391,473	6,768,091	31,068,526
Buildings	38,891,695	625,103	-	39,516,798
Office furniture and equipment	1,803,844	-	-	1,803,844
Other equipment	37,610,522	455,671	-	38,066,193
Leasehold improvements	<u>3,546,440</u>	<u>432,708</u>	<u>-</u>	<u>3,979,148</u>
Total capital assets being depreciated	<u>201,022,317</u>	<u>11,072,646</u>	<u>13,751,889</u>	<u>198,343,074</u>
Less accumulated depreciation and amortization				
Linehaul buses and equipment	30,969,236	6,687,323	6,802,068	30,854,491
Community transit buses and related equipment	20,246,716	3,199,977	6,759,964	16,686,729
Buildings	26,149,377	1,138,907		27,288,284
Office furniture and equipment	1,710,260	22,599	-	1,732,859
Other equipment	31,345,806	2,264,965	-	33,610,771
Leasehold improvements	<u>2,166,619</u>	<u>221,297</u>	<u>-</u>	<u>2,387,916</u>
Total accumulated depreciation and amortization	<u>112,588,014</u>	<u>13,535,068</u>	<u>13,562,032</u>	<u>112,561,050</u>
Total capital assets being depreciated, net	<u>88,434,303</u>	<u>(2,462,422)</u>	<u>189,857</u>	<u>85,782,024</u>
Total capital assets, net	<u>\$ 92,842,626</u>	<u>\$ (2,266,452)</u>	<u>\$ 351,910</u>	<u>\$ 90,224,264</u>

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

Capital asset activity during the fiscal year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets not being depreciated				
Land	\$ 4,246,270	\$ -	\$ -	\$ 4,246,270
Construction in progress	<u>256,607</u>	<u>162,053</u>	<u>256,607</u>	<u>162,053</u>
Total capital assets not being depreciated	<u>4,502,877</u>	<u>162,053</u>	<u>256,607</u>	<u>4,408,323</u>
Capital assets being depreciated				
Linehaul buses and equipment	91,364,704	109,536	749,568	90,724,672
Community transit buses and related equipment	25,447,068	3,744,928	746,852	28,445,144
Buildings	38,280,320	611,375	-	38,891,695
Office furniture and equipment	1,803,844	-	-	1,803,844
Other equipment	36,660,691	949,831	-	37,610,522
Leasehold improvements	<u>3,282,157</u>	<u>264,283</u>	<u>-</u>	<u>3,546,440</u>
Total capital assets being depreciated	<u>196,838,784</u>	<u>5,679,953</u>	<u>1,496,420</u>	<u>201,022,317</u>
Less accumulated depreciation and amortization				
Linehaul buses and equipment	24,286,478	7,057,418	374,660	30,969,236
Community transit buses and related equipment	18,348,451	2,635,921	737,656	20,246,716
Buildings	25,035,105	1,114,272	-	26,149,377
Office furniture and equipment	1,686,723	23,537	-	1,710,260
Other equipment	28,411,885	2,933,921	-	31,345,806
Leasehold improvements	<u>1,976,491</u>	<u>190,128</u>	<u>-</u>	<u>2,166,619</u>
Total accumulated depreciation	<u>99,745,133</u>	<u>13,955,197</u>	<u>1,112,316</u>	<u>112,588,014</u>
Total capital assets being depreciated, net	<u>97,093,651</u>	<u>(8,275,244)</u>	<u>384,104</u>	<u>88,434,303</u>
Total capital assets, net	<u>\$ 101,596,528</u>	<u>\$ (8,113,191)</u>	<u>\$ 640,711</u>	<u>\$ 92,842,626</u>

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

D. Purchase of Service Agreements

SMART has entered into purchase-of-service agreements with various transportation agencies, including community transit operators, all of which are separate transit systems operating in SMART's region. The agreements generally require that operating losses (as defined in the respective agreements) of these transportation agencies be subsidized up to specified maximum amounts.

Expenses under the purchase-of-service agreements for the years ended June 30 are comprised of the following:

	<u>2006</u>	<u>2005</u>
Municipal credits	\$3,058,956	\$3,058,956
Community credits	3,077,689	2,945,747
Community transit bus service	2,059,665	2,055,538
Specialized services	685,414	682,141
Ridesharing	94,500	-
NOTA	302,112	218,276
New services	52,602	49,626
Community-based services	<u>289,838</u>	<u>74,000</u>
Total	<u>\$9,620,776</u>	<u>\$9,084,284</u>

E. Interfund Receivables and Payables

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenses occur, (2) transactions are recorded in the accounting system.

At June 30, 2006 and 2005 the internal service fund had amounts due from the enterprise operating fund of \$3,056,000 and \$0, respectively.

F. Long-Term Debt

On September 8, 2000, SMART entered into an installment purchase contract to acquire 100 transit coaches during fiscal year 2001 at a cost of \$27.3 million. The acquisition is financed at a 5.23% interest rate over a 10-year period, with a semi-annual payment of principal and interest of \$1.77 million, each due on February 15 and August 15 of each year. The contract also provides for two annual options to acquire 100 and 87 additional

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

coaches during fiscal years 2002 and 2003, respectively, at interest rates indexed to the market. At June 30, 2003, all 100 buses were delivered.

In August 2001, SMART exercised its option to obtain 100 additional buses. This acquisition is financed at a 4.90% rate over a 10-year period, with semi-annual payment of principal and interest of \$1.9 million, each due on February 15 and August 15 of each year.

In October 2002, SMART exercised its option to acquire the final 87 buses. The acquisition is financed at a 4.78% rate over a 10-year period, with semi-annual payment of principal and interest of \$1.6 million, each due on February 15 and August 15 of each year. These three contracts are recorded as notes payable in the financial statements.

Subsequent to the acquisition of the first 100 transit coaches (Note 1), a significant downward fluctuation in the capital market interest rates occurred. The decrease in market rates was sufficient to warrant a restructuring of Note 1 with a reduction in interest expense to SMART. Effective February 18, 2004, the new interest rate for Note 1 is 4.44%, with a semi-annual payment of principal and interest of \$1.74 million. The restructuring of Note 1 will reduce interest expense by over \$425,000 over the life of the note.

Note payable activity for the year ended June 30, 2006 was as follows:

Issue	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due within one year
Note 1	\$16,777,449	\$ -	\$ 2,756,966	\$14,020,483	\$ 2,880,735
Note 2	18,001,769	-	2,814,747	15,187,022	2,954,359
Note 3	<u>17,875,575</u>	<u>-</u>	<u>2,299,940</u>	<u>15,575,635</u>	<u>2,411,191</u>
Total	<u>\$52,654,793</u>	<u>\$ -</u>	<u>\$ 7,871,653</u>	<u>\$44,783,140</u>	<u>\$ 8,246,285</u>

Note payable activity for the year ended June 30, 2005 was as follows:

Issue	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due within one year
Note 1	\$19,424,056	\$ -	\$ 2,646,607	\$16,777,449	\$ 2,756,967
Note 2	20,683,501	-	2,681,732	18,001,769	2,814,747
Note 3	<u>20,069,397</u>	<u>-</u>	<u>2,193,822</u>	<u>17,875,575</u>	<u>2,299,940</u>
Total	<u>\$60,176,954</u>	<u>\$ -</u>	<u>\$ 7,522,161</u>	<u>\$52,654,793</u>	<u>\$ 7,871,654</u>

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

* As of June 30, 2006, the annual requirements to pay principal and interest on the notes are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30			
2007	\$ 8,246,285	\$ 2,273,372	\$ 10,519,657
2008	8,638,778	1,880,879	10,519,657
2009	9,049,988	1,469,670	10,519,658
2010	9,480,806	1,038,850	10,519,656
2011 and thereafter	<u>9,367,283</u>	<u>856,340</u>	<u>10,223,623</u>
Total	<u>\$ 44,783,140</u>	<u>\$ 7,519,111</u>	<u>\$ 52,302,251</u>

* Due to a decrease in the capital market interest rates, restructuring of the Note 2 transaction reduced the interest rate from 4.90% to 4.50%. The effective date of the restructuring is August 11, 2006. The figures above present the financial position of notes payable as of June 30, 2006.

V. OTHER INFORMATION

A. Risk Management

In fiscal 2006 and 2005, SMART was a qualifying self-insurer for vehicle and general liability with a self retention per occurrence of \$1 million, and \$1 million aggregate corridor, and excess insurance in an amount of \$4 million per occurrence. SMART also was self-insured for workers' compensation claims up to \$500,000 per specific claim, and is insured up to \$5 million for aggregate losses in excess of \$500,000 per claim. Vehicle and general liability and workers' compensation claim liabilities are actuarially determined based on known information. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. These liabilities are classified as current, although some portion may not be paid within one year. Management believes, based on prior experience that the estimated reserve for claims is adequate to satisfy all claims filed, or to be filed, for incidents that occurred through June 30, 2006.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

Settled claims have not exceeded commercial coverage in any of the preceding four years.

SMART carries commercial insurance for other areas of risk, including health benefits.

Changes in the balances of self-insured liabilities during fiscal 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Claims liability - July 1	\$ 14,469,339	\$ 12,108,189
Current year claims	8,243,696	6,163,098
Claim payments	<u>(6,842,628)</u>	<u>(3,701,948)</u>
Claims liability - June 30	<u>\$ 15,970,407</u>	<u>\$ 14,569,339</u>

B. Pension Information

Plan Description

SMART participates in the Municipal Employees' Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee defined-benefit pension plan created under Public Act 135 of 1945, now operating under Public Act 220 of 1996. MERS was established to provide retirement, survivor, and disability benefits on a voluntary basis to the State of Michigan's local government employees.

Pursuant to Act 220, on August 15, 1996, MERS became an independent public nonprofit corporation, which is an instrumentality of the participating municipalities and courts. Prior to that, MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. MERS is administered solely by a Retirement Board. Benefit programs and provisions are established by the Retirement Board. MERS assigns the authority to establish and amend the benefit provisions of the plan to the respective employer entities. MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Substantially all SMART employees are members of the MERS plan. As of December 31, 2005, the date of the last actuarial valuation, 422 retirees and beneficiaries

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

were receiving benefit payments, and the Plan had 943 active members and 171 inactive vested members.

Benefits vest after 6 years of service, with special provisions for death and disability. Normal retirement is at age 60 with 6 years of service or at age 55 with 15 years of service. Early retirement with reduced benefits is available beginning at age 50 with 25 years of service.

Funding Policy

Members of only one of SMART's collective bargaining units make contributions to MERS. For the years ended June 30, 2006 and 2005, such employees contributed 3% of their payroll. SMART is required to contribute at an actuarially determined rate. For the fiscal year ended June 30, 2006, the rates, as a percentage of annual payroll, are as follows: ATU drivers, 12.23%; ATU clerical, 11.41%; UAW #771, 8.85%; Teamsters #247, 12.99%; AFSCME 1917, 15.63%; nonunion, 16.43%. The contribution requirements of plan members are established and may be amended by the Retirement Board of MERS.

Annual Pension Cost

For fiscal years ended June 30, 2006 and 2005, SMART recorded annual pension expense of \$4,828,170 and \$4,584,410, respectively.

The required contribution amount was determined as part of the December 31, 2003 actuarial valuation using the entry-age normal cost actuarial method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit; and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement for pensions under certain categories. The actuarial values of assets are determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%) and includes an adjustment to reflect market value. SMART's unfunded actuarial accrued liability is being amortized as a level percent of payroll over a period of 30 years.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

SMART's annual pension cost and net pension obligations for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Annual required contributions	\$ 4,727,052	\$ 4,583,112
Interest on net pension cost	(32,178)	3,938
Adjustment to annual required contribution	<u>21,572</u>	<u>(2,640)</u>
Annual pension cost	4,716,446	4,584,410
Contributions made	<u>4,902,184</u>	<u>5,035,859</u>
Increase in net pension asset	(185,738)	(451,449)
Pension asset, beginning of year	<u>(402,220)</u>	<u>49,229</u>
Pension asset, end of year	<u>\$ (587,958)</u>	<u>\$ (402,220)</u>

Three-year Historical Trend Information (dollar amounts in thousands):

	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation/ Asset</u>
Fiscal year ended June 30			
2004	\$ 4,371	113%	\$ 49
2005	4,584	110%	(402)
2006	4,727	104%	(588)

C. Other Postretirement Benefits

In addition to the pension benefits described in above, SMART provides postretirement health insurance, life insurance, and prescription benefits to certain employees who retire after attaining age 60 with at least 6 years of service or after attaining age 55 with at least 15 years of service. For the years ended June 30, 2006 and 2005, approximately 315 and 275 retirees met those eligibility requirements. Expenses for health and life insurance are recognized monthly as premiums are paid. Expenses for such postretirement benefits for the years ended June 30, 2006 and 2005 were approximately \$2,343,000 and \$1,362,791, respectively.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

NOTES TO THE FINANCIAL STATEMENTS

D. Commitments

SMART leases certain office space and equipment under operating lease agreements. Some leases include escalation clauses for SMART's pro-rata share of taxes and operating expenses. Most leases of office space and equipment are on a month-to-month basis. Total rent expense for the years ended June 30, 2006 and 2005 was approximately \$558,000 and \$541,000, respectively. SMART entered into a noncancelable lease commencing February 1, 2002 through January 31, 2007 for office space for its administrative office personnel and for a ticket sales store. The monthly rental payment on this lease is \$31,274. Future lease payments are \$375,000 and \$219,000 for fiscal years ended June 30, 2006 and 2007, respectively.

E. Contingencies

Various legal actions and workers' compensation claims are outstanding or may be instituted or asserted against SMART. Management has accrued amounts with respect to such actions and claims based on its best estimate of SMART's ultimate liability in these matters, including an estimate for claims that have been incurred but not reported for self-insured vehicle liability.

F. Deferred Compensation Plan

SMART offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan are held for the exclusive benefit of the participants and their beneficiaries and are not reflected in SMART's financial statements.

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REQUIRED SUPPLEMENTARY SCHEDULES

**SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION**

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

Defined Benefit Pension Plan

Schedule of Funding Progress (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/03	\$ 105,865	\$ 126,425	\$ 20,560	83.7	% \$ 39,568	52%
12/31/04	113,930	135,308	21,379	84.2	40,342	53
12/31/05	122,591	146,089	23,498	83.9	40,866	58



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 11, 2006

To the Members of the Board of Directors
Suburban Mobility Authority
for Regional Transportation

In planning and performing our audit of the financial statements of the ***Suburban Mobility Authority for Regional Transportation***, for the year ended June 30, 2006, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated October 11, 2006, on the financial statements of the ***Suburban Mobility Authority for Regional Transportation***.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Directors, Audit Committee, Management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with appropriate Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Authority in implementing the recommendations.

We would like to thank the staff and management of the ***Suburban Mobility Authority for Regional Transportation*** for their assistance and cooperation in completing the audit.

Memorandum

1) **POSTEMPLOYMENT BENEFITS PLANS OTHER THAN PENSIONS**

In April 2004 the Governmental Accounting Standards Board issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*.

The standard will require the Authority to obtain an actuarial valuation of its postemployment benefits other than pension plans, establish a separate trust or equivalent for these benefits and begin recognizing this long-term obligation based on the actuarially determined required contribution amount.

The Authority will be required to adopt this new standard in the 2008/2009 fiscal year. In addition, the Authority will be required to have an updated actuarial study performed in the 2007/2008 fiscal year to determine the actuarial required contribution amount.

Status

The Authority has established an internal service fund to begin accumulating resources to fund this long-term liability.

The Authority's costs on a pay as you go basis was approximately \$3 million for fiscal year 2006. Based upon the December 31, 2004 actuarial study using the intermediate assumptions as reported therein, the total unfunded liability is approximately \$96 million. The required employer rate is approximately 21.35% of eligible wages. This would equate to an annual contribution of approximately \$9.1 million based upon an estimated amount of \$42.7 million in eligible wages. As you can see the increase will be significant.

The Authority has already begun addressing this issue by establishing a mechanism to begin pre-funding this liability. There are also other options that the Authority may consider in reducing this liability such as limiting this benefit to only current employees or establishing a defined contribution plan in lieu of this benefit. These options, may of course, require some level of legal assistance and union approval.